

**REPORT OF THE AUDIT OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES**

**For The Period
May 8, 2009 Through April 15, 2010**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ROCKCASTLE COUNTY
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period
May 8, 2009 Through April 15, 2010

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2009 Taxes for the Rockcastle County Sheriff for the period May 8, 2009 through April 15, 2010. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,848,967 for the districts for 2009 taxes, retaining commissions of \$117,148 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,747,626 to the districts for 2009 taxes. Refunds of \$17,960 are due to the Sheriff from the taxing districts.

Report Comment:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Independent Auditor's Report

We have audited the Rockcastle County Sheriff's Settlement - 2009 Taxes for the period May 8, 2009 through April 15, 2010. This tax settlement is the responsibility of the Rockcastle County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Rockcastle County Sheriff's taxes charged, credited, and paid for the period May 8, 2009 through April 15, 2010, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Buzz Carloftis, Rockcastle County Judge/Executive

Honorable Michael E. Peters, Rockcastle County Sheriff

Members of the Rockcastle County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

October 15, 2010

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES

For The Period May 8, 2009 Through April 15, 2010

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 279,543	\$ 419,314	\$ 1,404,882	\$ 437,234
Tangible Personal Property	16,028	32,740	87,176	75,488
Fire Protection	1,618			
Increases Through Exonerations	14	20	69	21
Franchise Taxes	31,403	61,263	169,208	
Additional Billings	132	198	662	206
Limestone, Sand and Mineral Reserves	128	192	645	200
Penalties	3,212	4,834	16,109	5,175
Adjusted to Sheriff's Receipt	(82)	(76)	(367)	(190)
Gross Chargeable to Sheriff	<u>331,996</u>	<u>518,485</u>	<u>1,678,384</u>	<u>518,134</u>
<u>Credits</u>				
Exonerations	3,764	5,704	18,958	6,071
Discounts	4,031	6,496	20,231	7,033
Delinquents:				
Real Estate	11,542	17,313	58,006	18,053
Tangible Personal Property	<u>1,519</u>	<u>3,103</u>	<u>8,263</u>	<u>7,945</u>
Total Credits	<u>20,856</u>	<u>32,616</u>	<u>105,458</u>	<u>39,102</u>
Taxes Collected	311,140	485,869	1,572,926	479,032
Less: Commissions *	<u>13,223</u>	<u>20,649</u>	<u>62,917</u>	<u>20,359</u>
Taxes Due	297,917	465,220	1,510,009	458,673
Taxes Paid	299,530	467,937	1,518,785	461,374
Refunds (Current and Prior Year)	<u>215</u>	<u>330</u>	<u>1,081</u>	<u>527</u>
		**		
Refunds Due Sheriff as of Completion of Audit	<u>\$ (1,828)</u>	<u>\$ (3,047)</u>	<u>\$ (9,857)</u>	<u>\$ (3,228)</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

ROCKCASTLE COUNTY
MICHAEL E. PETERS, SHERIFF
SHERIFF'S SETTLEMENT - 2009 TAXES
For The Period May 8, 2009 Through April 15, 2010
(Continued)

* Commissions:

4.25% on \$ 1,276,041
4% on \$ 1,572,926

** Special Taxing Districts:

Library District	\$ (1,143)
Health District	(978)
Extension District	(732)
Soil Conservation District	<u>(194)</u>
Refunds Due Sheriff	<u>\$ (3,047)</u>

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Rockcastle County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

ROCKCASTLE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2010
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Rockcastle County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2009. Property taxes were billed to finance governmental services for the year ended June 30, 2010. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 9, 2009 through April 15, 2010.

Note 4. Interest Income

The Rockcastle County Sheriff earned \$345 as interest income on 2009 taxes. As of October 15, 2010, the Sheriff owed \$183 in interest to the school district and \$162 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Rockcastle County Sheriff collected \$18,251 of 10% add-on fees allowed by KRS 134.119(7). As of October 15, 2010, the Sheriff owed \$18,251 in 10% add-on fees to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Buzz Carloftis, Rockcastle County Judge/Executive
Honorable Michael E. Peters, Rockcastle County Sheriff
Members of the Rockcastle County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Rockcastle County Sheriff's Settlement - 2009 Taxes for the period May 8, 2009 through April 15, 2010, and have issued our report thereon dated October 15, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rockcastle County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2009-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rockcastle County Sheriff's Settlement - 2009 Taxes for the period May 8, 2009 through April 15, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Rockcastle County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

October 15, 2010

COMMENT AND RECOMMENDATION

ROCKCASTLE COUNTY
MICHAEL E. PETERS SHERIFF
COMMENT AND RECOMMENDATION

For The Period May 8, 2009 Through April 15, 2010

INTERNAL CONTROL - MATERIAL WEAKNESS:

2009-01 The Sheriff's Office Lacks Adequate Segregation Of Duties Over Cash Receipts

The Sheriff's office lacks an adequate segregation of duties over cash receipts. During our review of internal controls, we noted that the Sheriff employs two bookkeepers. One bookkeeper is responsible for opening mail, preparing bank deposits and preparing the daily checkout sheets, while the other bookkeeper is responsible for posting receipts to the receipts ledger. Both bookkeepers are responsible for collecting cash.

A limited budget places restrictions on the number of employees the Sheriff can hire. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. The implementation of compensating controls is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties of opening mail, preparing bank deposits, preparing daily checkout sheets, and collecting cash receipts. If due to a limited number of staff this is not feasible, the Sheriff should implement the following compensating controls in order to offset this deficiency:

- The Sheriff should recount cash and agree to the deposit ticket. The Sheriff should document this by initialing the deposit ticket
- The Sheriff should perform surprise cash counts
- The Sheriff should compare monthly reports to the receipts and disbursements ledgers. The Sheriff should document this by initialing both the receipts and disbursements ledgers and the monthly reports.

Sheriff's Response: No response.

